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SOLVING THE RAILROAD PROBLEM

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A DISTINGUISHED railroad president said in a recent address, "The railroad problem has not changed, nor is it shrouded in mystery. It is this: railroad earnings and credit must be created sufficient to support the existing railroad investment and attract the additional capital the transportation business requires in the public interest." At first thought one is inclined to say, "If the railroad problem is so simple why are we having all this hubbub and confusion about solving it?" Second thoughts, however, with their usual disagreeable habit of transforming simplicity into complexity, inform us that the railroad problem, as expressed by the distinguished railroad president, is the problem of every other business, and of every individual in the world. It is the old problem of making both ends meet. There is no mystery involved in the mere statement of this universal problem. But when we attempt to solve it simplicity vanishes and mystery enters; our simultaneous equations have altogether too many unknown quantities.

It is generally recognized that in creating the earnings sufficient to support the existing railroad investment and attract new capital three results will be achieved: (1) The public will receive reasonably adequate and efficient service from existing transportation facilities; (2) labor will have reasonably adequate wages and satisfactory working conditions; (3) investors will obtain a reasonable return on their invested capital. Before we can devise a program to bring about these results it is necessary to make certain inquiries. What is the reasonably adequate and efficient service which the public has a right to expect from existing transportation facilities? What are reasonable wages and working conditions for railroad labor? What is reasonable remuneration for railroad investors? The railroad problem begins to leave the realm of simplicity. Let us go farther. Who shall answer these questions? Upon what facts shall the answers be based? And after these questions are answered, what machinery shall we devise to translate the answers into effective action?

In view of the complexity of the railroad problem it is amaz-

ing how many infallible solutions have been presented. It is but fair to note that the author of each "plan" declaims with patriotic fervor, that his plan is best because it is the only one in which the public interest is the paramount consideration. There has never been a time in which the public interest has been so completely indented with so many strongly opposed private interests.

Notwithstanding the extensive discussion of the railroad problem during recent months, little progress has been made toward a satisfactory solution. There have been no frank and specific replies to the questions which must be answered before a satisfactory program of regulation can be adopted. What answer do we have from investors, for instance, to the questions concerning the return on capital? It has been suggested by certain groups that rates should be made to yield a return of six per cent on property investment. What is the property investment in railroads? Railroad property accounts for the years preceding 1908 are quite worthless. Physical valuation will not show the value of investment. Capitalization does not show it. Some people are, by implication, urging the "validation" of present railroad capitalization, asserting that the water injected into railroad securities in times past has long since been absorbed through the process of putting "earnings back into the property." Even if this were admitted to be true, the question at once arises as to how we should consider these reinvested earnings in the regulation of rates.

Should we finally agree upon the investment value of the railroads, and decide that rates should be made to yield a return of six per cent on this value, we should have the problem of equalizing the earnings of "weak" and "strong" roads. The suggestion that the strong roads give up all their earnings in excess of six per cent. arouses bitter opposition among the officials and stockholders of the strong roads. They unanimously urge that capital receive an "incentive" in the way of adequate return. What is an adequate return? At least six per cent. Very well, here is a virtual guarantee of six per cent. with the understanding that all excess earnings be returned to the public treasury. But the confiscation of earnings above six per cent. would destroy "incentive." This incentive is a tender flower. It is hard to escape the conclusion that the chief stockholders and managers of the strong roads desire rates to be made high enough to insure adequate

returns for the weakest roads. It is pleasant for them to contemplate what such rates would mean. "The strong roads," they say, "should be allowed to earn well above any minimum so that in lean years the public will not be asked to pay increased rates." Present and past experiences with railroad companies and street car companies hardly justify confidence in statements of this nature. Owners of street railway monopolies, when making exorbitant profits out of a five-cent fare justify their returns because of the great "risk" assumed. When the risk overtakes them their refuge is not the surplus of fat years, but a "flexible" fare.

All classes of labor are now alert and suspicious. The wages of railroad employees have been raised again and again during the past four years, but the leaders still declare wages "inadequate." Veiled threats of strikes and hints regarding "conspiracies" on the part of railroad managers to reduce wages when private operation is restored serve to warn us of a constantly impending danger. Efforts are being made to pass anti-strike laws, and the laborer wants to know if the Government has any more right to commandeer underpaid labor than it has to require the unproductive investment of capital. Labor leaders denounce an anti-strike law which does not contain a "bill of rights," a labor code, which will insure to labor a reasonable wage. But the nearest approach which a labor leader makes to defining a reasonable wage is his never failing assertion of the inadequacy of the present wages being paid. Labor frowns upon all talk of making future reductions in wages commensurate with possible future reductions in the cost of living. What labor has gained, that will labor hold. Perhaps the leaders have a vague idea of getting something more than a minimum in order that they will not find it necessary in "lean years" to ask for increased pay.

There is little doubt that a satisfactory solution of our present railroad problem must be based upon some definite conception of what is a reasonable return to capital and to labor. Though it will probably never be possible to satisfy these two interests, some way must be found to appease them. In return the public must demand efficient and honest service from both capital and labor. We apparently never get tired, though we have abundant opportunity, of being told that the transportation system of the United States is the most efficient and economical transportation system in the world. In fact it is constantly repeated that all business activities, except the post-office, are carried on more ef-

ficiently in the United States than in any other country. We need to be awakened. How can anybody having a part in the operation and management of the rail-and-water terminal facilities of New York City boast about the efficiency of our transportation system? Moreover, the waste, inefficiency and incompetence displayed in New York have their counterparts in virtually all the other great terminals of the United States. If machinery is not created to bring about by compulsion the elimination of waste and inefficiency in our railroad terminals the public will be cheated of its due. Had the railroad managers used existing equipment with all possible efficiency in 1917 the Government would have remained out of the railroad business.

Another feature of the reasonably adequate and efficient service which the public has a right to demand is the development of cheap water transportation, especially along the sea-coasts, and the coordination of rail and water carriers. We talk to-day about increasing production. One of the greatest economic sins committed in this country has been the deliberate efforts of railroad interests to decrease the production of transportation by employing unfair methods to destroy water competition. Such sabotage deserves the strongest condemnation and it should not be allowed to continue.

It is not impossible that our attempts to solve the railroad problem will eventually result in government ownership of railroads. Though most students of transportation do not look with favor upon government ownership of railroads in the United States there are none who will deny its possibility and few who deny its probability. The promise of satisfactory legislation in the near future is not bright. If the roads are turned back to their owners without provision for the adequate protection of labor, capital, and the public, government ownership is inevitable.

Government ownership will probably not come by the adoption of the Plumb Plan. Nor will government ownership mean that the nation has turned to Socialism. If government ownership comes it will be an expedient, a measure of last resort, the only feasible way out of a troublesome situation. While government ownership is to be deprecated it is not to be feared. A great many men are exhibiting genuine concern about the rule of ninety-eight million people by two million. In so doing they cast most unpleasant reflections upon the intelligence of the ninety-eight million, of which they are themselves a part.

Whether we are to have government ownership in the near future depends entirely upon the ability of Congress to frame a law which will make private ownership and operation possible. It is impossible for Congress to enact a law which will satisfy all private interests. It would be unwise for Congress to enact a law which would completely satisfy any single private interest. And if the diverse interests involved in the settlement of the railroad problem do not soon adopt a spirit of concession and conciliation, and evince a willingness to have their cases tried on their merits, without the introduction of so much prejudiced testimony, any law which Congress may pass will create such discontent that private ownership will be immediately endangered.